

Principal Life - Q & A

Since the Principal Financial Group[®] Nov. 4, 2008, call discussing third quarter 2008 financial results, a number of industry analysts and media outlets have commented on potential issues for the life insurance sector, including annuities with living benefits, rating agency downgrades and commercial real estate holdings.

The Principal[®] believes some of the commentary has resulted in misinterpretation and potentially misleading information concerning our company's financial condition as detailed in the following Q&A. Investors who wish to be accurately informed of The Principal's financial condition should visit our website at www.principal.com and review the documents that can be found at the Investor Relations portion of the website.

Q. What is the company's exposure to annuities?

A. Discussion by various commentators of annuities with living benefits, sometimes referred to as guaranteed minimum withdrawal benefits ("GMWB"), has created the impression that The Principal's exposure to this risk is similar to that of other insurers. As CEO Larry Zimpleman explained at The Principal's third quarter earnings call, a significant point that distinguishes The Principal from other insurers is the small part GMWB plays in The Principal's business. With only \$1 billion in this block, equity market volatility has minimal impact on the capital necessary to support The Principal's individual annuities business. **Annuities with GMWB represented approximately 1/2 of 1% of The Principal's third quarter 2008 earnings.**

Q. What's the latest on agency ratings for The Principal?

A. Commentators have speculated about the possibility of agency downgrades as a reason to sell shares of U.S. life insurance companies. On November 7, 2008, **Moody's Investors Service affirmed The Principal's financial strength and debt ratings, all with stable outlooks.** In addition, **Fitch affirmed The Principal's financial strength and debt ratings in September 2008, all with stable outlooks.**

In our third quarter earnings call, we acknowledged the possibility of downgrades in the insurance sector and explained that, while strong relative ratings remain important to The Principal, our key growth engines – U.S. Asset Accumulation, Principal Global Investors and Principal International – could continue to operate successfully at a lower rating, particularly if downgrades were industry wide.

Q. How are the company's real estate investments performing?

A. Some reports have contained broad, negative comments about The Principal's commercial real estate loan portfolio. As Chief Financial Officer Terry Lillis pointed out at our third quarter earnings call, **every single commercial mortgage loan in our \$11 billion portfolio is performing on schedule.** In releasing third quarter 2008 results, we clearly communicated that we anticipate defaults and losses on commercial mortgages will increase in the future. However, we believe the increase will occur over a period of several years, and that we will have the ability to accommodate these losses going forward through the use of a number of capital management techniques.

Q. What is the company's cash position?

A. We would like to remind investors that **our three key growth businesses require very little capital to support organic growth, which enables us to generate substantial free cash flows on an ongoing basis.** Because of strong liquidity in our general account, we have the flexibility to selectively scale back on certain capital intensive businesses to free up additional capital. In addition, we manage our investment portfolio to match our liabilities, which, like others in the life insurance industry (and different from other financial services industries), are longer-term in nature.

As we stated at our November 4 earnings call, the company has continued to enhance liquidity, increasing cash and cash equivalent holdings by more than 50% from June 30 to \$2.3 billion at the end of the third quarter.

Q. What about the impact of gross unrealized losses?

A. We continue to believe **the fundamentals of our fixed maturity portfolio remain sound and that gross unrealized losses are a highly inaccurate representation of future investment losses.** Given our strong general account liquidity position, the longer-term nature of our liabilities and our disciplined asset-liability matching, we have the ability and intent to hold assets until maturity.